

CASCADIA BEHAVIORAL HEALTHCARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Accounting

The accompanying schedule of expenditures of federal awards includes all federal grant and contract activity of Cascadia Behavioral Healthcare, Inc. and is presented on the accrual basis of accounting in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Accordingly, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Catalog of Federal Domestic Assistance (CFDA)

CFDA numbers reported in the accompanying schedule of expenditures of federal awards are based on the January 2005 Catalog of Federal Domestic Assistance.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Cascadia Behavioral Healthcare, Inc.
Portland, Oregon

We have audited the consolidated financial statements of Cascadia Behavioral Healthcare, Inc. (a non-profit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated December 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cascadia Behavioral Healthcare, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cascadia Behavioral Healthcare, Inc.'s consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jones & Roth, P.C.

Jones & Roth, P.C.
Eugene, Oregon
December 4, 2005



**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Cascadia Behavioral Healthcare, Inc.
Portland, Oregon

Compliance

We have audited the compliance of Cascadia Behavioral Healthcare, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Cascadia Behavioral Healthcare, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Cascadia Behavioral Healthcare, Inc.'s management. Our responsibility is to express an opinion on Cascadia Behavioral Healthcare, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cascadia Behavioral Healthcare, Inc.'s compliance with those requirements and performing such other procedures as considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Cascadia Behavioral Healthcare, Inc.'s compliance with those requirements.

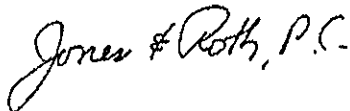
In our opinion, Cascadia Behavioral Healthcare, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Cascadia Behavioral Healthcare, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Cascadia Behavioral Healthcare, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Jones & Roth, P.C.
Eugene, Oregon
December 4, 2005

CASCADIA BEHAVIORAL HEALTHCARE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section 1 – Summary of Auditor's Reports

Financial Statements

1. Type of auditor's report issued – unqualified
2. Reportable conditions in internal control identified in the audit of the financial statements – none
3. Material weaknesses in internal control identified in the audit of the financial statements – none
4. Noncompliance that is material to the financial statements noted – none

Federal Awards

5. Reportable conditions in internal control over major programs identified in the audit of the financial statements – none
6. Material weaknesses in internal control over major programs identified in the audit of the financial statements – none
7. The type of auditors' report issued on compliance for major programs – unqualified
8. Audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 – none

Identification of Major Programs

- U.S. Department of Health and Human Services
 - i. Prevention and Treatment of Substance Abuse (CFDA No. 93.959)
 - ii. Projects for Assistance in Transition from Homelessness (CFDA No. 93.150)
 - U.S. Department of Housing and Urban Development
 - i. Community Development – Entitlement (CFDA No. 14.218)
 - ii. Supportive Housing Program (CFDA No. 14.235)
9. Dollar threshold used to distinguish between Type A and Type B programs - \$300,000
 10. Is the auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133? – yes

Section 2 – Financial Statement Findings

11. Findings relating to the financial statements reported in accordance with *Government Auditing Standards* – none

Section 3 – Federal Award Findings and Questioned Costs

12. Findings and questioned costs relating to federal awards – none

CASCADIA BEHAVIORAL HEALTHCARE, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

There were no findings reported in the prior period.

STATE COMPLIANCE SECTION



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Directors
Cascadia Behavioral Healthcare, Inc.
Portland, Oregon

Our report on our audit of the consolidated financial statements of Cascadia Behavioral Healthcare, Inc., for the years ended June 30, 2005 and 2004, appears on pages 4-5. The audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Jones & Roth, P.C.
Eugene, Oregon
December 4, 2005

CASCADIA BEHAVIORAL HEALTHCARE, INC.
SCHEDULE OF REVENUES AND EXPENSES
For the Year Ended June 30, 2005

	<u>LaFayette Apartments</u>	<u>Clinton Street Apartments</u>
Operating revenues, gains, and other support		
Rental income	\$ 143,306	\$ 60,156
Laundry and vending revenue	1,555	362
Interest earned on reserves	<u>440</u>	<u>373</u>
 Total operating revenues, gains, and other support	 <u>145,301</u>	 <u>60,891</u>
Expenses		
Electricity	5,955	4,680
Equipment and furnishings	678	-
Exterminating	987	973
Garbage and trash removal	2,050	1,320
Grounds contracts	2,100	2,102
Janitorial contracts and supplies	508	2,425
Insurance	2,586	1,274
Legal fees	-	-
Miscellaneous	382	1,389
Natural gas	-	-
Property management fee	7,200	4,752
Rent	-	-
Repairs and maintenance	16,711	27,194
Security	300	300
Taxes, licenses, and permits	-	25
Telephones and pagers	-	-
Water and sewer	15,611	3,796
Interest expense	27,111	11,046
Depreciation and amortization	<u>39,475</u>	<u>30,657</u>
 Total expenses	 <u>121,654</u>	 <u>91,933</u>
 Excess (deficiency) of revenues over expenses	 <u>\$ 23,647</u>	 <u>\$ (31,042)</u>

<u>Killingsworth Group Homes</u>	<u>Andrea Place Apartments</u>	<u>Garlington Plaza Apartments</u>	<u>Faulkner Apartments</u>	<u>Total</u>
\$ 19,203	\$ 98,100	\$ 101,820	\$ 118,584	\$ 541,169
-	-	490	-	2,407
-	231	294	424	1,762
<u>19,203</u>	<u>98,331</u>	<u>102,604</u>	<u>119,008</u>	<u>545,338</u>
1,457	6,063	5,544	7,614	31,313
-	-	-	3,395	4,073
200	-	-	861	3,021
321	2,585	2,170	2,915	11,361
1,862	3,487	2,132	200	11,883
-	441	3,722	-	7,096
63	2,046	2,269	2,331	10,569
-	-	-	-	-
-	-	-	(173)	1,598
1,054	2,079	1,588	6,356	11,077
4,605	8,100	5,000	9,792	39,449
3,844	-	-	-	3,844
1,490	18,433	12,050	16,376	92,254
-	792	1,252	525	3,169
-	-	125	105	255
-	-	-	-	-
-	5,823	5,450	8,785	39,465
-	28,536	10,885	32,688	110,266
-	9,215	11,715	25,509	116,571
<u>14,896</u>	<u>87,600</u>	<u>63,902</u>	<u>117,279</u>	<u>497,264</u>
<u>\$ 4,307</u>	<u>\$ 10,731</u>	<u>\$ 38,702</u>	<u>\$ 1,729</u>	<u>\$ 48,074</u>

CASCADIA BEHAVIORAL HEALTHCARE, INC.
SCHEDULE OF REVENUES AND EXPENSES
For the Year Ended June 30, 2004

	<u>LaFayette Apartments</u>	<u>Clinton Street Apartments</u>
Operating revenues, gains, and other support		
Rental income	\$ 107,369	\$ 51,272
Laundry and vending revenue	1,733	446
Interest earned on reserves	<u>470</u>	<u>350</u>
 Total operating revenues, gains, and other support	 <u>109,572</u>	 <u>52,068</u>
Expenses		
Electricity	6,335	4,210
Exterminating	984	645
Garbage and trash removal	1,980	1,176
Grounds contract	2,823	2,107
Insurance	2,442	1,207
Legal fees	174	87
Natural gas	-	-
Property management fee	7,549	4,646
Repairs and maintenance	12,599	13,853
Security	300	300
Taxes, licenses, and permits	165	-
Telephones and pagers	-	-
Water and sewer	15,434	3,746
Interest expense	27,825	11,292
Depreciation and amortization	<u>39,475</u>	<u>30,657</u>
 Total expenses	 <u>118,085</u>	 <u>73,926</u>
 Excess (deficiency) of revenues over expenses	 <u>\$ (8,513)</u>	 <u>\$ (21,858)</u>

<u>Killingsworth Group Homes</u>	<u>Andrea Place Apartments</u>	<u>Garlington Plaza Apartments</u>	<u>Faulkner Apartments</u>	<u>Total</u>
\$ 48,000	\$ 98,100	\$ 101,822	\$ 118,579	\$ 525,142
-	69	610	-	2,858
<u>183</u>	<u>258</u>	<u>271</u>	<u>682</u>	<u>2,214</u>
 48,183	 98,427	 102,703	 119,261	 530,214
4,948	8,858	6,486	8,670	39,507
456	250	150	837	3,322
1,312	2,413	2,100	3,113	12,094
-	2,408	1,987	153	9,478
2,069	1,918	959	3,194	11,789
-	33	408	28	730
-	1,883	1,562	6,488	9,933
4,336	8,100	5,000	19,584	49,215
3,447	14,442	7,479	18,575	70,395
-	2,403	1,263	1,346	5,612
76	25	150	-	416
166	-	-	-	166
2,324	5,377	5,417	3,331	35,629
13,163	29,142	11,328	33,270	126,020
<u>15,954</u>	<u>9,215</u>	<u>11,715</u>	<u>26,719</u>	<u>133,735</u>
 48,251	 86,467	 56,004	 125,308	 508,041
 \$ (68)	 \$ 11,960	 \$ 46,699	 \$ (6,047)	 \$ 22,173



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Cascadia Behavioral Healthcare, Inc.
Portland, Oregon

We have audited the consolidated financial statements of Cascadia Behavioral Healthcare, Inc. (a non-profit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated December 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cascadia Behavioral Healthcare, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide an opinion on the internal control over financial reporting.

In connection therewith, we have also made a study of those internal accounting control and administrative control procedures comprehended in the Audit Compliance Questionnaire, which is set forth in Appendix 2 of the *Oregon Housing and Community Services Division Audit Guide for Elderly/Disabled Housing Program*. Our study included tests of compliance with such procedures.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cascadia Behavioral Healthcare, Inc.'s consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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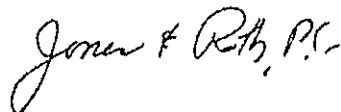
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We also considered those compliance matters comprehended in the Audit Compliance Questionnaire, which is set forth in Appendix 2 of the *Oregon Housing and Community Services Division Audit Guide for Elderly/Disabled Housing Program*.

The results of our tests indicated that, with respect to the items tested, the Organization complied, in all material respects, with the provisions referred to in the preceding 2 paragraphs. With respect to the items not tested, nothing came to our attention that caused us to believe that the Organization had not complied, in all material respects, with those provisions.

We understand that, 1) the objectives of the control procedures referred to in the sixth paragraph of this report are to provide assurance concerning compliance with the Oregon Housing and Community Services Department's related requirements, 2) such procedures are considered by the Housing and Community Services Department to be adequate for its purposes in accordance with the Department's and related regulations and, 3) procedures that do not accomplish such objectives indicate some inadequacy for such purposes. Based on this understanding and our study, we believe that the Organization's procedures would be adequate for such purposes.

This report is intended solely for the information and use of the audit committee, management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Jones & Roth, P.C.
Eugene, Oregon
December 4, 2005